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Consolidated Financial Report

The National World War II Museum, Inc. and Subsidiaries

June 30, 2008

Under provisions of state law, this report is a public document. A copy of the report has been submitted to the entity and other appropriate public officials. The report is available for public inspection at the Baton Rouge office of the Legislative Auditor and, where appropriate, at the office of the parish clerk of court.

Release Date 1/21/09



Bourgeois Bennett

Certified Public Accountants | Consultants
A Limited Liability Company

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The National World War II Museum, Inc. and Subsidiaries

June 30, 2008

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FINANCIAL SECTION



Bourgeois Bennett

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors,
The National World War II Museum, Inc.,
New Orleans, Louisiana.

We have audited the accompanying consolidated statement of financial position of The National World War II Museum, Inc. and Subsidiaries (a nonprofit organization) (the "Museum") as of June 30, 2008, and the related consolidated statements of activities and changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the Museum's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the 2007 consolidated financial statements and in our report dated November 19, 2007; we expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in Governmental Auditing Standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of The National World War II Museum, Inc. and Subsidiaries as of June 30, 2008, and the changes in its net assets and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated October 28, 2008 on our consideration of The National World War II Museum, Inc. and Subsidiaries' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not provide an opinion on the internal control over financial reporting on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Bourgeois Bennett, L.L.C.

Certified Public Accountants.

New Orleans, Louisiana,
October 28, 2008.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION**The National World War II Museum, Inc. and Subsidiaries**

June 30, 2008
(with comparative totals for 2007)

	<u>2008</u>	<u>2007</u>
<u>ASSETS</u>		
Cash and cash equivalents	\$ 40,553,969	\$ 7,297,222
Investments	3,755,695	2,354,774
Unconditional promises to give:		
Capital Campaign, net of allowances	3,900,025	6,017,213
Endowment, net of allowances	504,113	1,700,178
Other, net of allowances	629,535	632,846
Grants receivable	1,306,748	249,750
Interest receivable	32,231	-
Notes receivable	5,239,995	-
Gift shop inventory	432,208	384,689
Other assets	313,600	176,895
Property and equipment, net of accumulated depreciation	52,312,967	42,138,385
Collections	4,700,654	4,264,224
Totals	<u>\$ 113,681,740</u>	<u>\$ 65,216,176</u>
<u>LIABILITIES</u>		
Accounts payable and accrued expenses	\$ 4,543,495	\$ 1,807,087
Notes payable	34,156,672	2,720,000
Total liabilities	<u>38,700,167</u>	<u>4,527,087</u>
<u>NET ASSETS</u>		
Unrestricted	58,148,986	48,357,095
Temporarily restricted	13,289,352	9,244,009
Permanently restricted	3,543,235	3,087,985
Total net assets	<u>74,981,573</u>	<u>60,689,089</u>
Totals	<u>\$ 113,681,740</u>	<u>\$ 65,216,176</u>

See notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS**The National World War II Museum, Inc. and Subsidiaries**

For the year ended June 30, 2008
(with comparative totals for 2007)

	2008			2007 Totals
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Support and Revenues				
Grants	\$ 711,784	\$ 4,897,472		\$ 5,609,256
Contributions:				
Capital Campaign		3,422,511		3,422,511
Endowment			\$ 455,250	455,250
Other	1,047,925	9,222,046		10,269,971
Admissions	1,226,393			1,226,393
Gift shop	634,318			634,318
Memberships	5,204,415			5,204,415
Miscellaneous	485,908			485,908
Sponsored events and conferences	1,526,045	132,675		1,658,720
Sponsorships	55,645			55,645
Facilities and property rental	689,260			689,260
Investment income	254,908	62,761		317,669
Net assets released from restrictions	13,692,122	(13,692,122)		-
Total revenues and support	25,528,723	4,045,343	455,250	30,029,316
Expenses				
General and administrative	1,574,761			1,574,761
Fundraising	1,098,908			1,098,908
Museum operations	5,554,879			5,554,879
Public programs	3,747,804			3,747,804
Museum expansion	597,953			597,953
Loss on abandonment of buildings	1,055,311			1,055,311
Gift shop merchandise sold	389,455			389,455
Capital Campaign fundraising and other	1,665,114			1,665,114
Professional fundraising and other	1,776			1,776
Legal, audit and consulting fees - administration	10,130			10,130
Travel, meeting and conventions	40,741			40,741
Total expenses	15,736,832	-	-	15,736,832
Changes in Net Assets	9,791,891	4,045,343	455,250	14,292,484
Net Assets				
Beginning of year	48,357,095	9,244,009	3,087,985	60,689,089
End of year	<u>\$ 58,148,986</u>	<u>\$ 13,289,352</u>	<u>\$ 3,543,235</u>	<u>\$ 74,981,573</u>

See notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS**The National World War II Museum, Inc. and Subsidiaries**

For the year ended June 30, 2008
(with comparative totals for 2007)

	<u>2008</u>	<u>2007</u>
Cash Flows From Operating Activities		
Change in net assets	\$ 14,292,484	\$ 3,508,871
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	1,481,464	1,591,744
Loss on disposal of assets	1,055,311	-
Interest on note receivables	(37,251)	-
Donations of property and equipment and collections	(16,315)	(3,376)
Unrealized gain on investments	(6,047)	(267,930)
(Increase) decrease in operating assets:		
Other unconditional promises to give, net	3,311	284,710
Insurance claim receivable	-	500,000
Grant receivable - federal grant	(112,562)	(10,059)
Interest receivable	(32,231)	-
Gift shop inventory	(47,519)	(9,666)
Other assets	(136,705)	126,023
Increase in operating liabilities:		
Accounts payable and accrued expenses	2,736,408	327,604
Revenues restricted for the acquisition of property and equipment:		
State grant	(4,289,277)	(841,096)
Capital Campaign contributions, net of expenses	(1,887,896)	(1,668,546)
Decrease in discount on unconditional promises to give:		
Capital Campaign	(143,931)	(36,089)
Provision for uncollectible promises to give:		
Capital Campaign	(43,208)	(52,212)
Contributions restricted for endowment purposes	(392,299)	(974,791)
Provision for uncollectible promises to give - endowment	(62,951)	(31,894)
Net cash provided by operating activities	<u>12,360,786</u>	<u>2,443,293</u>

**Exhibit C
(Continued)**

	<u>2008</u>	<u>2007</u>
Cash Flows From Investing Activities		
Purchase of property and equipment	(12,052,324)	(4,839,784)
Purchase of collections	(420,430)	(375,886)
Advances on note receivable	(5,202,744)	-
Investments - purchased	<u>(1,394,874)</u>	<u>(2,086,844)</u>
Net cash used in investing activities	<u>(19,070,372)</u>	<u>(7,302,514)</u>
Cash Flows From Financing Activities		
Collections of state grant funds restricted for the acquisition of property and equipment	3,344,841	1,551,422
Collections of Endowment gifts	1,651,315	297,012
Collections of Capital Campaign contributions restricted for the acquisition of property and equipment, net of \$1,347,161 and \$1,080,786 of campaign expenses in 2008 and 2007, respectively	4,192,223	2,492,619
New borrowings from bank	30,777,954	-
(Payments) borrowings on line of credit, net	<u>-</u>	<u>(1,019,260)</u>
Net cash provided by financing activities	<u>39,966,333</u>	<u>3,321,793</u>
Net Increase (Decrease) In Cash and Cash Equivalents	33,256,747	(1,537,428)
Cash and Cash Equivalents		
Beginning of year	<u>7,297,222</u>	<u>8,834,650</u>
End of year	<u>\$ 40,553,969</u>	<u>\$ 7,297,222</u>

See notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**The National World War II Museum, Inc. and Subsidiaries**

June 30, 2008

Note 1 - NATURE OF ACTIVITIES

The National World War II Museum, Inc. (formerly named The National D-Day Museum Foundation, Inc.) and Subsidiaries (the "Museum") was established on December 2, 1991, to design, construct, and maintain a public museum located in New Orleans, Louisiana that tells the story of the American Experience in *the war that changed the world* - why it was fought, how it was won, and what it means today - so that all generations will understand the price of freedom and be inspired by what they learn.

The Museum completed its initial phase of construction and opened in June, 2000. An expansion of the Museum devoted to the war in the Pacific Theatre opened in December, 2001. During 2003, the Museum was officially designated by Congress as America's National World War II Museum and was reincorporated under its new name with the State of Louisiana. In 2006, the Museum completed construction on the first major component of a new expansion project. This addition, named Discovery Hall, is a 12,000 sq. ft., multi-functional, education facility offering the Museum's first dedicated space to students and teachers providing an exciting, dynamic place to learn. The Museum also completed renovations in 2007 to the Eisenhower Center, a historical structure adjacent to the main building which houses research services and a recording studio for oral history and other video production.

During 2008, the Museum broke ground for construction of the Victory Theater and Stage Door Canteen complex. This major campus addition is comprised of a multi-sensory theater presenting a signature film experience titled *Beyond All Boundaries*, and a 1940's themed live performance venue with food and beverage service. This phase of the Museum's expansion also provides space for support services, administration, retail outlets, and central plant services.

Note 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements of the Museum have been prepared on the accrual basis of accounting. Significant accounting policies are summarized below.

a. Organization and Income Taxes

The National World War II Museum, Inc. is a non-profit corporation organized under the laws of the State of Louisiana for charitable purposes, principally the operation and maintenance of a museum dedicated to the history of World War II. It is exempt from Federal income tax under Section 501(c)(3) of the Internal Revenue Code, and qualifies as an organization that is not a private foundation as defined in Section 509(a) of the Code. It is also exempt from Louisiana income tax under the authority of R.S. 47:121(5).

Effective March 21, 2006, Chalk #17, Inc. was formed as a non-profit corporation to be operated exclusively for the benefit of the Museum. The Museum is the sole member and elects the members of the board of directors of Chalk #17, Inc. The purpose of this corporation was to acquire and preserve a 1942 C-47 aircraft, gather and preserve the history of the C-47 aircraft, specifically with regard to its role in World War II, and to promote public awareness, appreciation, and education of the historic relevance of the C-47 aircraft. During the year ended June 30, 2007, ownership for the C-47 aircraft was transferred from Chalk #17, Inc. to the Museum.

On October 22, 2007, World War II Theatre, Inc. was established as a non-profit corporation to operate exclusively for the benefit of the Museum and to support the educational, charitable, and social purposes of the Museum specifically to construct and operate a theater and U.S.O. themed canteen and restaurant adjacent to the existing museum. The corporation is organized on a stock basis. The aggregate number of shares that this corporation shall have authority to issue is 100 shares, and there shall be one shareholder of the corporation who shall be known as the Corporate Shareholder and such Corporate Shareholder shall be The National World War II Museum, Inc.

b. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

Note 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

c. Basis of Accounting

The financial statements of the Museum are prepared on the accrual basis of accounting and accordingly, reflect all significant receivables, payables, and other liabilities.

d. Basis of Presentation

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards (SFAS) No. 117, "Financial Statements for Not-For-Profit Organizations" Under SFAS No. 117, net assets, revenues and expenses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Museum and changes therein are classified and reported as follows:

Unrestricted Net Assets - Net assets that are not subject to donor-imposed stipulations.

Temporarily Restricted Net Assets - Net assets subject to donor-imposed stipulations that may or will be met either by actions of the Museum and/or the passage of time.

Permanently Restricted Net Assets - Net assets subject to donor - imposed stipulations that they be maintained permanently by the Museum. The donors of these assets permit the Museum to use all of the income earned on related investments for general or specific purposes.

e. Consolidation

The accompanying consolidated financial statements show the combined assets, liabilities, and transactions of the Museum and its subsidiaries, Chalk #17, Inc. and World War II Theatre, Inc (the Subsidiary). As described on the previous page, ownership for the C-47 plane was transferred from Chalk #17, Inc., to the Museum. For the year ended June 30, 2008 Chalk #17, Inc. had no assets or liabilities nor were there any revenue or expenses. The only activities of the Subsidiary relate to the new museum expansion. During the year ended June 30, 2008, loan proceeds of

Note 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

e. Consolidation (Continued)

\$40,000,000 (discounted to net present value of future principal payments of \$30,777,954 at inception) were received to fund the construction costs. This debt, investments, and corresponding construction in progress costs were combined with amounts for the Museum and presented in the consolidated financial statements. All intercompany transactions and resulting balances have been eliminated in the consolidated financial statements.

f. Cash and Cash Equivalents

For purposes of the statement of cash flows, the Museum considers all short-term, highly liquid investments (including certificates of deposit) with an original maturity of three months or less when purchased to be cash equivalents. The Museum considers investments in money market funds to be cash equivalents. Included in cash and cash equivalents at year end are loan proceeds restricted for construction projects (see Note 4).

g. Promises To Give

Contributions are recognized when the donor makes a promise to give to the Museum that is, in substance, unconditional. Conditional promises to give are recognized when the conditions on which they depend are substantially met. All promises to give are recognized as assets, less an allowance for uncollectible amounts, and revenues.

h. Contributions and Revenue Recognition

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence or nature of any donor restrictions.

Support that is restricted by the donor is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restrictions. When a restriction expires (that is, when a stipulated time restriction ends or a purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Note 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

i. Allowances For Uncollectible Promises To Give

The Museum provides for estimated uncollectible promises to give based on prior years' experience and management's analysis of specific promises made. At June 30, 2008 and 2007, the balance of the allowance related to the Capital Campaign was \$79,592 and \$122,800 respectively, the allowance related to the Endowment was \$26,532 and \$89,483, respectively, and the allowance for other promises was \$94,068 and \$94,611, respectively.

j. Gift Shop Inventory

Inventories are valued at the lower of cost (first-in, first-out) or market.

k. Fixed Assets and Depreciation

Assets acquired are stated at cost, net of accumulated depreciation. Assets donated are carried at fair market value on date of donation, net of accumulated depreciation. Repairs and maintenance are charged to expense as incurred; major renewals and replacements and betterments are capitalized. Depreciation of buildings, exhibits, furnishings, and equipment is provided over the estimated useful lives of the respective assets on the straight-line basis ranging from three years for equipment, ten years for exhibits and forty years for buildings.

l. Collections

At June 30, 2008 and 2007, collections consist of three films commissioned by the Museum, a collection of German, French and American artifacts acquired from the St. Lo Museum in France in 1995, aircraft, tanks, certain military vehicles, and miscellaneous artifacts. The Museum does not record depreciation on its collections because depreciation is not presently required to be recognized on individual works of art or historical treasures whose economic benefit or service potential is used so slowly that their estimated useful lives are extraordinarily long. It is the Museum's policy to capitalize only those items purchased, not those donated, unless the item's cost is significant and is able to be valued objectively. Donated collection items are not recorded, except in rare circumstances, due to the lack of an objective basis of valuation.

Note 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

m. Donated Services of Volunteers

A substantial number of volunteers have given extensive amounts of time and services to the Museum. However, no amounts are reflected in the financial statements for such services as management feels that the requirements of Statement of Financial Accounting Standards No. 116, "Accounting for Contributions Received and Contributions Made" for recording in-kind services have not been satisfied.

n. Fundraising Expenses

All expenses associated with fundraising activities are expensed as incurred, including those expenses related to fundraising appeals in a subsequent year.

o. Allocated Expenses

The costs of providing the various programs and other activities are summarized in Note 18. Certain expenses have been allocated among the programs and supporting services based on management's estimate of the costs involved.

p. Reclassifications

Certain amounts in the prior year financial statements have been reclassified for comparative purposes to conform to the presentation in the current year.

Note 3 - RESTRICTIONS ON ASSETS

Temporarily restricted net assets are restricted by the donor for specific purposes or are available for subsequent periods. Cash, investments, and promises to give raised through the Capital Campaign are restricted for the acquisition of property and equipment and campaign expenses. Those restrictions are considered to expire when payments are made. Promises to give received from other donors are time-restricted for subsequent periods.

Note 3 - RESTRICTIONS ON ASSETS (Continued)

Temporarily restricted net assets are available for the following purposes or periods:

	<u>2008</u>	<u>2007</u>
Acquisition of property and equipment -		
Capital Campaign	\$ 3,900,025	\$ 8,440,494
Other restricted purposes	196,464	170,669
For subsequent periods:		
Unconditional promises to give	629,535	632,846
Unamortized discount on notes payable (see Note 14 and 15)	<u>8,563,328</u>	<u>-</u>
Totals	<u>\$ 13,289,352</u>	<u>\$ 9,244,009</u>

Permanently restricted net assets of \$3,543,235 and \$3,087,985 at June 30, 2008 and 2007, respectively, consist of cash and investments which are restricted for endowment purposes, the earnings from which are available for operations and accordingly are recognized as unrestricted revenue, and unconditional promises to give.

Note 4 - LIMITED USE ASSETS

Pursuant to the issuance of the New Markets Tax Credits Financing Commitment (as described in Note 14) between the Museum and Capital One (the "Bank"), the Museum is required to maintain certain funds until disbursements are approved by the Bank. These funds are restricted for the construction of the Theatre/USO/ Restaurant/Canteen and Support Facilities phase of the Museum expansion. The amount of restricted cash at June 30, 2008 totaled \$34,959,934.

Note 5 - MARKETABLE SECURITIES

Marketable securities are summarized as follows:

	June 30, 2008		
	Cost	Market Value	Excess of Market Over Cost
Mutual funds at June 30, 2008	<u>\$ 3,481,718</u>	<u>\$ 3,755,695</u>	\$ 273,977
Mutual funds at June 30, 2007	<u>\$ 2,086,844</u>	<u>\$ 2,354,774</u>	267,930
Increase in unrealized appreciation			6,047
Dividends, net of investment expenses			23,674
Interest on cash and cash equivalents			<u>287,948</u>
Total investment income			<u>\$ 317,669</u>

	June 30, 2007		
	Cost	Market Value	Excess of Market Over Cost
Mutual funds at June 30, 2007	<u>\$ 2,086,844</u>	<u>\$ 2,354,774</u>	\$ 267,930
Increase in unrealized appreciation			267,930
Dividends, net of investment expenses			11,842
Interest on cash and cash equivalents			<u>342,389</u>
Total investment income			<u>\$ 622,161</u>

Note 6 - RISKS AND UNCERTAINTIES

In general, investment securities are exposed to various risks, such as interest rate, currency, credit and market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in values of investments will occur in the near term and would materially affect the market value of investments held by the Museum.

Note 7 - CONCENTRATION OF CREDIT RISK

The Museum maintains cash balances at several local financial institutions where they are insured by the Federal Deposit Insurance Corporation up to \$100,000 per Bank. At June 30, 2008 and 2007, cash deposits in excess of the insured limits were approximately \$40,172,000 and \$7,407,000, respectively.

Note 8 - UNCONDITIONAL PROMISES TO GIVE

Promises of donors to make contributions to the Museum are included in the financial statements as unconditional promises to give and revenue of the temporarily restricted net assets class after discounting projected future cash flows to the present value using a discount rate of 5%.

Unconditional promises to give consist of the following:

	2008	2007
Unconditional promises to give:		
Capital Campaign	\$ 4,458,730	\$ 6,763,057
Endowment	590,038	1,988,530
Other	786,481	792,350
Gross unconditional promises to give	5,835,249	9,543,937
Less:		
Unamortized discount:		
Capital Campaign	(479,113)	(623,044)
Endowment	(59,393)	(198,869)
Other	(62,878)	(64,893)
Allowance for uncollectible amounts:		
Capital Campaign	(79,592)	(122,800)
Endowment	(26,532)	(89,483)
Other	(94,068)	(94,611)
Net unconditional promises to give	<u>\$ 5,033,673</u>	<u>\$ 8,350,237</u>
Net unconditional promises to give:		
Capital Campaign	\$ 3,900,025	\$ 6,017,213
Endowment	504,113	1,700,178
Other	629,535	632,846
Totals	<u>\$ 5,033,673</u>	<u>\$ 8,350,237</u>

Note 8 - UNCONDITIONAL PROMISES TO GIVE (Continued)

	<u>2008</u>	<u>2007</u>
Amounts due in:		
Less than one year	\$ 3,256,806	\$ 5,771,054
One to five year	<u>2,578,443</u>	<u>3,772,883</u>
Totals	<u>\$ 5,835,249</u>	<u>\$ 9,543,937</u>

Note 9 - NOTE RECEIVABLE

The Museum entered into an agreement on December 4, 2007 to lend COCRF Investor I, L.L.C. a maximum aggregate amount of \$27,000,000. The note is secured by certain bank accounts of COCRF Investor I, L.L.C. Outstanding principal at June 30, 2008 totaled \$5,239,995. Interest accrues at a fixed rate of 3.86% and is payable at maturity. Interest earned on this note for the year ended June 30, 2008 was \$37,251, which is included in the note receivable balance. The note matures on December 4, 2014, at which time all outstanding principal and interest will be paid.

Note 10 - PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	<u>2008</u>	<u>2007</u>
Land	\$ 3,953,125	\$ 3,934,475
Buildings	28,451,315	29,558,557
Exhibits	3,137,473	3,088,518
Equipment	4,026,199	4,000,427
Construction in progress	<u>22,848,209</u>	<u>10,917,153</u>
	62,416,321	51,499,130
Less accumulated depreciation	<u>(10,103,354)</u>	<u>(9,360,745)</u>
Totals	<u>\$ 52,312,967</u>	<u>\$ 42,138,385</u>

Depreciation expense for the year ended June 30, 2008 and 2007 totaled \$1,481,464 and \$1,591,744, respectively.

Note 11 - SPLIT-INTEREST AGREEMENT

During the year ended June 30, 2008, a charitable gift annuity was established in which assets were transferred to the Museum. The Museum pays \$7,757 annually to the donor until the donor's death, then to his wife until her death. The assets donated were valued at \$121,200 on the date of donation. The present value of estimated future payments of \$61,359 at June 30, 2008, is included in the liabilities section in the Museum's Consolidated Statement of Financial Position.

Note 12 - GRANTS

The State of Louisiana provided a capital appropriation through a Cooperative Endeavor Agreement with The National WWII Museum, Inc. and The World War II Theatre, Inc. in the amount of \$33,000,000. The Museum must use the State award for the planning and construction of buildings needed for the expansion program. During the years ended June 30, 2008 and 2007, the Museum recognized revenue under this grant of \$4,289,277 and \$841,096, respectively.

The Institute of Museum and Library Services awarded a grant totaling \$942,400 to fund the costs of some professional staff members directly involved in collecting and managing the artifact and personal history collections and in the development and presentation of on-site and outreach events, activities and programs and the 2006 history conference. The Museum must use the award for the expansion of education activities including collection of oral histories, school outreach, and exhibitions. During the years ended June 30, 2008 and June 30, 2007, the Museum recognized revenue under this grant of \$336,195 and \$416,622, respectively.

Note 13 - BANK LINE OF CREDIT

On March 18, 2005 the Museum entered into a loan agreement with the Whitney National Bank in New Orleans. The loan agreement provides for a \$2,000,000 line of credit loan which is evidenced by a promissory note and has been extended to January 29, 2009. The line of credit loan was established to purchase property for expansion and refinance a mortgage loan. The loan is secured by a first mortgage on the property acquired, the assignment of rents and leases, and all property and deposits held by the financial institution. At June 30, 2008, the Museum had no outstanding borrowings under this loan agreement. Interest on the loan is payable monthly at an adjusted rate equal to the one month LIBOR plus 1.5% (3.9575% at June 30, 2008).

Note 13 - BANK LINE OF CREDIT (Continued)

During June 30, 2008, no interest expense on the line of credit was incurred. During June 30, 2007, interest expense totaled \$31,002.

Note 14 - NEW MARKET TAX CREDITS

In December 2007, World War II Theatre, Inc. executed a New Markets Tax Credits Financing Transaction with Capital One (see Note 15) to fund construction costs for the Theatre/Stage Door Canteen/Restaurant-Bar/ and Support Facilities (the Project). The Museum is a guarantor of the Subsidiary's obligation. The structure will realize benefits from the New Market Tax Credit Program of the Community Development Financial Institution Fund (CDFI), a branch of the U.S. Department of Treasury, and from the State of Louisiana New Markets Tax Credits Program.

The transaction includes multiple loans totaling \$40 million toward this \$58 million phase of the expansion. The Museum has sources of funding in place to satisfy a significant portion of the loans, including over \$25,000,000 in State capital outlay, and over \$6,700,000 in existing donor pledges and contributions as of the date of the transaction closing.

The total loan amount is split between three loans which are referred to as Facility A, Facility B, and Facility C. All three loans mature in seven years. Facility A loan has a balance of \$6,000,000 at June 30, 2008. The loan bears interest at a fixed rate of 6.14% at June 30, 2008. During the construction period (18 months), interest only payments are required. After the construction period, interest and principal payments are due quarterly until maturity. Facility B loan has a balance of \$27,000,000 at June 30, 2008. The loan is a non-interest bearing note with the principal amount due at maturity December 4, 2014. Facility C loan has a balance of \$7,000,000 at June 30, 2008. The loan is a non-interest bearing note with the principal amount due at maturity December 4, 2014.

The Museum will realize a projected benefit in positive cash flow from the federal and state incentives totaling \$9,560,000 (unaudited), which will be used to fund the expansion.

Note 15 - NOTES PAYABLE

Notes payable consist of the following:

	<u>2008</u>	<u>2007</u>
Note payable to Whitney National Bank, bearing interest at a one month LIBOR + 1.5% (3.9575% at June 30, 2008). Interest is due monthly with a balloon payment of \$2,720,000 due January 29, 2009, secured by a first mortgage on the buildings.	\$ 2,720,000	\$ 2,720,000
Notes payable to four Community Development Financial Institutions, Capital One Community Renewal Fund, LLC, Stonehenge Community Development XIII, LLC, Enhanced Delta Small Business Investment Fund, LLC, and NNMF Sub-CDE I, LLC (Facility A), bearing interest at 4.08% with interest due quarterly through December 4, 2014 (maturity), Principal payments are to be made quarterly beginning January 5, 2010 at .625% of the amount funded on the note through October 2013 and 2.5% of the amount funded on the note quarterly to maturity date, secured by all accounts receivable, deposits held by financial institutions, and the assignment of certain revenues of the Museum. (See Note 14).	6,000,000	-

Note 15 - NOTES PAYABLE (Continued)

	2008	2007
Notes payable to four Community Development Financial Institutions, Capital One Community Renewal Fund, LLC, Stonehenge Community Development XIII, LLC, Enhanced Delta Small Business Investment Fund, LLC, and NNMF Sub-CDE I, LLC (Facility B), bearing no interest (discount is based on imputed interest rates between 4.39% and 4.64%), principal outstanding is due on the maturity date of the note (December 4, 2014) secured by all accounts receivable, deposits held by financial institutions, and the assignment of certain revenues of the Museum. (See Note 14).	27,000,000	-
Notes payable to four Community Development Financial Institutions, Capital One Community Renewal Fund, LLC, Stonehenge Community Development XIII, LLC, Enhanced Delta Small Business Investment Fund, LLC, and NNMF Sub-CDE I, LLC (Facility C), bearing no interest (discount is based on imputed interest rates between 4.39% and 4.64%), principal outstanding is due on the maturity date of the notes (December 4, 2014) secured by all accounts receivable, deposits held by financial institutions, and the assignment of certain revenues of the Museum. (See Note 14).		
	7,000,000	-
	42,720,000	2,720,000
	(8,563,328)	-
Less unamortized discount	\$ 34,156,672	\$ 2,720,000
Totals		

Note 15 - NOTES PAYABLE (Continued)

Interest expense on the note payable to Whitney National Bank totaled \$158,228 and \$177,879 for the years ended June 30, 2008 and 2007, respectively. Interest recognized on the notes payable to the four Community Development Financial Institutions, which was capitalized as construction in progress, totaled \$658,718 for the year ended June 30, 2008.

Note 16 - CAPITAL CAMPAIGN

In 2004, the Museum began the Capital Campaign to raise funds for the expansion of the Museum facilities and campaign expenses. The goal of the Capital Campaign is to raise \$300,000,000, of which \$60,000,000 is targeted from Federal sources, \$60,000,000 from State funding, \$120,000,000 from private sector donations, and \$60,000,000 from commercial funding sources for the hotel and conference center, should that segment of the expansion prove to be feasible.

As June 30, 2008, \$10,750,000 has been funded by Federal sources; \$33,000,000 has been appropriated by the State of Louisiana; \$26,868,212 has been raised from private sector sources for property acquisitions and campaign expenses and \$3,604,160 has been raised from private sector sources for the Endowment Fund, net of promises written off (including cash received through that date and promises to give in subsequent periods). An additional \$3,319,176 is reported by the Museum as planned gifts which will be recognized in subsequent periods in accordance with accounting principles generally accepted in the United State of America (for items such as the Museum being named as a beneficiary in a will or life insurance policy).

Note 16 - CAPITAL CAMPAIGN (Continued)

Promises receivable from private sector sources (excluding Endowment) are as follows:

	<u>2008</u>	<u>2007</u>
Promises receivable at beginning of year	\$ 6,763,057	\$ 7,587,130
New promises made during the year	3,235,056	2,749,332
Less:		
Cash received	<u>(5,539,383)</u>	<u>(3,573,405)</u>
Promises receivable at end of year	4,458,730	6,763,057
Unamortized discount	(479,113)	(623,044)
Allowance for doubtful promises	<u>(79,592)</u>	<u>(122,800)</u>
Totals	<u>\$ 3,900,025</u>	<u>\$ 6,017,213</u>

The activities of the Capital Campaign funding from private sector sources for property acquisitions and campaign expenses through June 30, 2008 are as follows:

Total Capital Campaign gifts and promises (excluding Endowment)	\$ 26,968,212
Less amounts written off since inception	<u>(100,000)</u>
	26,868,212
Discount to net present value at June 30, 2008	(479,113)
Allowance for doubtful promises at June 30, 2008	<u>(79,592)</u>
Gifts and promises, net	<u>26,309,507</u>

Note 16 - CAPITAL CAMPAIGN (Continued)

Net assets released from restrictions through
acquisition of property or payment of
Capital Campaign expenses:

2004	3,605,658
2005	2,467,099
2006	2,973,040
2007	5,396,033
2008	<u>7,967,652</u>
Total net assets released	<u>22,409,482</u>
Temporarily restricted net assets - Capital Campaign	<u>\$ 3,900,025</u>

Note 17 - RETIREMENT PLANS

The Museum adopted a defined contribution plan covering all of its employees who are age eighteen and over, who have completed three months of service. The Plan allows participants to contribute by salary reduction pursuant to Section 401(k) of the Internal Revenue Code. The Plan allows the Museum to contribute a discretionary amount on a uniform basis to all participants. The Museum's contribution to the plan totaled \$64,474 and \$57,897 for the years ended June 30, 2008 and 2007, respectively.

The Museum sponsors a Section 403(b) salary reduction plan covering substantially all of its employees.

The Museum sponsors deferred compensation plans pursuant to Sections 457(b) and (f) of the Internal Revenue Code for the benefit of several employees. The Museum's contributions to the plans totaled \$57,000 in each of the years ended June 30, 2008 and 2007. These funds are transferred to separate trusts outside the control of the Museum with the two employees as the beneficiaries.

Note 18 - FUNCTIONAL ALLOCATION OF EXPENSES

Expenses have been reported on the statement of activities and changes in net assets by natural classification. To present expenses by functional classifications, expenses are charged to program services and supporting services (general and administrative expense, Capital Campaign expense and fundraising expenses) based on management's estimate of periodic time and expense evaluations. General and administrative expenses include those expenses that are not directly identifiable with any other specific function, but provide for the overall support and direction of the Museum.

Total expenses are allocated as follows:

	<u>2008</u>	<u>2007</u>
Program services	\$ 10,726,095	\$ 9,223,097
Supporting services:		
General and administrative	1,982,135	2,170,002
Fundraising	1,369,213	1,425,287
Fundraising - Capital Campaign	<u>1,659,389</u>	<u>1,247,787</u>
Total expenses	<u>\$ 15,736,832</u>	<u>\$ 14,066,173</u>

Note 19 - COMMITMENTS

The Museum entered into employment contracts with several employees expiring on various dates through July 31, 2012, which provides for a minimum annual salary for each, and incentives based on the Museum's attainment of specified levels of financial performance for one employee. Two of the contracts provide for retention bonuses provided the employees meet certain levels of performance and extend their employment contracts by the end of the initial terms. At June 30, 2008, the total combined commitment of 6 years of service for these contracts, excluding incentives, was \$1,723,342 for salary and \$192,000 for contributions to the deferred compensation plans.

On March 1, 2005, the Museum entered into a contract for the architectural design of the Capital Expansion Project. Under the terms of the contract, fees are determined by a lump sum total of \$250,000, 9.9% of the first \$80,170,115, and 6% of costs in excess of \$80,170,115. As of June 30, 2008, the Museum has incurred construction in progress related to this project totaling approximately \$5,021,000.

Note 19 - COMMITMENTS (Continued)

The Museum has entered into a contract for the exhibit design of the Capital Expansion Project totaling approximately \$6,872,000. As of June 30, 2008, the Museum has incurred construction in progress related to this project totaling approximately \$2,550,000.

On August 3, 2006, the Museum entered into a contract for the Streetscape Co-ordination and Design of Magazine Street for \$254,875. On June 26, 2008, a supplemental agreement for additional services in the amount of \$39,780 raised the total commitment to \$294,655. As of June 30, 2008, the Museum has incurred construction in progress related to this project totaling approximately \$269,000.

On November 29, 2007, the Museum entered a contract with a construction contractor totaling approximately \$41,998,000 to build the WWII Victory Theatre and other elements associated with "Phase 4" of the Capital Expansion Project. As of June 30, 2008, four change orders have been approved which cumulatively reduce the overall construction cost to \$41,150,203. As of June 30, 2008 the Museum has incurred construction in progress related to this project totaling approximately \$6,902,000.

On March 1, 2008 the Museum entered into a contract with a show producer for the creative development, production, installation and commissioning of "Beyond All Boundaries", a 4-D theater experience for the Victory Theater totaling approximately \$9,025,000. As of June 30, 2008, the Museum has incurred construction to progress related for this project totaling approximately \$2,138,000.

Note 20- SUPPLEMENTAL CASH FLOW INFORMATION

	<u>2008</u>	<u>2007</u>
Cash paid for interest	<u>\$ 158,228</u>	<u>\$ 208,881</u>
Cost of building improvements and equipment acquired	\$ 12,711,357	\$ 4,842,189
Less:		
Amortization of note payable discount	(658,718)	-
Donated equipment (non-cash)	<u>(315)</u>	<u>(2,405)</u>
Cash payments for property and equipment acquired	<u>\$ 12,052,324</u>	<u>\$ 4,839,784</u>

Note 20- SUPPLEMENTAL CASH FLOW INFORMATION (Continued)

	<u>2008</u>	<u>2007</u>
Cost of collections acquired	\$ 436,430	\$ 376,857
Less:		
Donated equipment (non-cash)	<u>(16,000)</u>	<u>(971)</u>
Cash payments for collections acquired	<u>\$ 420,430</u>	<u>\$ 375,886</u>

Noncash financing and investing activities include the increase in the cost of building improvements of \$658,718 for capitalized interest through the amortization of the discount on the below market rate notes payable.

Note 21 - SUBSEQUENT EVENTS

In October 2008, the Museum and the Subsidiary agreed upon terms with Whitney National Bank to execute a second transaction for an additional \$14,000,000 New Market Tax Credits Financing Transaction for the current phase of the expansion. The tax credit allocations provided in this second tranche are estimated to contribute an additional \$2,800,000 (unaudited) in funding toward the expansion.

Recent economic uncertainty and market events have led to significant volatility, primarily declines, in currency, commodity, credit and equity markets. These recent events underscore the level of investment risk associated with the current economic environment, and accordingly the level of risk in investments held by the Museum. The effect of these matters on the Museum's net assets has not been determined at October 28, 2008 and in any event changes daily.

SPECIAL REPORT OF CERTIFIED PUBLIC ACCOUNTANTS



Bourgeois Bennett

**REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER
MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

To the Board of Directors,
The National World War II Museum, Inc.,
New Orleans, Louisiana.

We have audited the financial statements of The National World War II Museum, Inc. and Subsidiaries (the Museum), as of and for the year ended June 30, 2008, and have issued our report thereon, dated October 28, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Museum's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Museum's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Museum's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Museum's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Museum's financial statements that is more than inconsequential will not be prevented or detected by the Museum's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Museum's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in the internal control over financial reporting that we consider to be material weakness, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Museum's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

This report is intended for the information of the Board of Directors, management, the State of Louisiana, and the Legislative Auditor for the State of Louisiana and is not intended to be and should not be used by anyone other than these specified parties. Under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.

Bourgeois Bennett, LLC.

Certified Public Accountants.

New Orleans, Louisiana,
October 28, 2008.

SCHEDULE OF FINDINGS AND RESPONSES

The National World War II Museum, Inc. and Subsidiaries

For the year ended June 30, 2008

Section I - Summary of Auditor's Report

a) Financial Statements

Type of auditor's report issued: unqualified

Internal control over financial reporting:

- Material weakness(es) identified? ___ yes X no
- Significant deficiency(ies) identified that are
not considered to be material weakness? ___ yes X no

Noncompliance material to financial statements noted? ___ yes X no

b) Federal Awards

The Museum did not receive Federal awards in excess of \$500,000 during the year ended June 30, 2008, and therefore is exempt from the audit requirements under the Single Audit Act and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations.

Section II - Financial Statement Findings

No financial statement findings were noted during the audit for the year ended June 30, 2008.

Section III - Federal Award Findings and Questioned Costs

Not applicable.

REPORTS BY MANAGEMENT

SCHEDULE OF PRIOR YEAR FINDINGS AND RESPONSES

The National World War II Museum, Inc. and Subsidiaries

For the year ended June 30, 2007

Section I - Internal Control and Compliance Material to the Financial Statements

Internal Control Over Financial Reporting

No material weaknesses were noted during the audit of the financial statements for the year ended June 30, 2007.

No significant deficiencies were reported during the audit of the financial statements for the year ended June 30, 2007.

Compliance

No compliance findings material to the financial statements were noted during the audit of the financial statements for the year ended June 30, 2007.

Section II - Compliance and Internal Control Material to the Federal Awards

No federal award findings or questioned costs were reported during the audit for the year ended June 30, 2007.

MANAGEMENT'S CORRECTIVE ACTION PLAN

The National World War II Museum, Inc. and Subsidiaries

For the year ended June 30, 2008

Section I - Internal Control and Compliance Material to the Financial Statements

Internal Control Over Financial Reporting

No material weaknesses were noted during the audit of the financial statements for the year ended June 30, 2008.

No significant deficiencies were reported during the audit of the financial statements for the year ended June 30, 2008.

Compliance

No compliance findings material to the financial statements were noted during the audit of the financial statements for the year ended June 30, 2008.

Section II - Compliance and Internal Control Material to the Federal Awards

The Museum did not receive Federal awards in excess of \$500,000 during the year ended June 30, 2008 and therefore is exempt from the audit requirements under the Single Audit Act and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations.

Section III - Management Letter

A management letter was not issued in connection with the audit of the financial statements for the year ended June 30, 2008.